

# THE TAXATION ON AGRICULTURAL INCOME IN INDIA

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## ABSTRACT

*India, being a diverse country, the government requires a substantial amount of revenue to govern it, which is sourced from tax and non-tax sources. Currently, about 52% (7.44 lakh crores) of the tax revenue of the government is from tax on commodities and services i.e., the indirect taxes. Moreover, they are regressive in nature, thereby leading to inflation and social inequality. On the other hand, the tax on income or simply the direct tax, is progressive. However, the Income Tax Act, 1961 exempts agricultural income from taxation. Though this clause benefits the rural agriculturalists with meagre income, it is mostly exploited by large scale farmers and agriculture companies, which is not the intended outcome of the clause. This research paper throws light on the probable taxation of agricultural income and its impact on government revenue and other taxpayers.*

**Keywords:** *Progressive, Regressive, agricultural income, tax on commodities and services, tax on income*

## INTRODUCTION

Given the increasing government expenditure, there is a constant pressure on the government to generate additional revenue without much distortion. Thus, it is important to bring into discussion the taxation on agricultural income in India. Although it is true that most of the rural population of India depend on agriculture for their livelihood, it must also be noted that only 20% of the agricultural income is held by 4% of the agriculturists. Even though its implementation is complex, taxation on agricultural income could generate sizeable revenue for the government. When India added earnings tax in 1886 below colonial rule, profits tax on agriculture was saved out of its ambit due to current land levies and the right to collect any shape of agricultural income tax was vested with the main colonial administration. In 1935, the right to land sales, and to capability agricultural earnings tax, become transferred to the provinces, today's states. Since then, every state has evolved its own agricultural profits- tax coverage, with extensive interstate disparities.

## II. REVIEW OF LITERATURE

1. (Sengupta, April 14, 2012)

This article discusses direct tax code and taxation of agricultural income (A missed opportunity). The current taxation system prevailing in India and how it has been implemented. Also, the flaws in the current system and how could the implementation of tax on agricultural income benefit the economy. It also tells about the economic reforms and growth in India. This paper seeks to reignite this debate at two levels, one by asking comprehensive taxation of incomes and implying thereby taxation of agricultural incomes. And second is the need to use current legislation to ensure that the exemption base of agricultural income from taxation. The issue of number of reports on taxation as well as in the literature on tax policy in India has been discussed.

2. (Ojha, March 29, 1969)

This article discuss the implementation of such tax and enquires as to whether tax can be imposed or land revenue can be collected. Further, it brings out the difficulty in its implementation with special reference to the problem of equity. It tells that it is possible to amend the Indian Income-Tax Act that income derived from agriculture is treated as non-

agricultural income in future. He discuss about the criteria on income derived from only leasing out land for agricultural purposes would not qualify for treatment as agricultural income.

3. (Raj, 1973)

This article discuss as to whether the agricultural sector is taxed comparatively less than other sectors. The next question the research addresses is once this issue is settled, is to devise measures, which would be administratively feasible, efficient and equitable. The author demonstrates that the tax ratios for non-agricultural and agricultural income are not comparable. If they are made roughly comparable and taxed on a comparable basis, the tax revenue from agriculture would be lower than what is now. This suggests that in relation to 'taxable income', farm households are paying a higher proportion of their incomes than their counterparts in the non-farm sector. It may be the land revenue is the most suitable form of land taxation. Pending fresh settlements, land revenue could be more progressive in its incidence by instituting a graduated scale of surcharge.

4. (pandey & ragavan, 2016)

This article studies about the reaction of the tax branch on an RTI application, agricultural income in India multiplied exponentially from 2004 to 2013. The initial estimates are to the range of ₹ 2000 lakhs crores. Interestingly, that is kind of 20 times the size of India's GDP. Many IRS officers believe that unlawful income, undisclosed (black) money is without a doubt proven as agricultural income to keep away from taxes. There are certain news reports that communicate about cases wherein agricultural earnings become disclosed as being in excess of ₹ 1 crores by means of many human beings. Income tax branch is now scrutinising these cases. Apart from the inconvenience precipitated to farmers, it also affects the tax on food. If the farm profits are taxed, it's miles quite probable that food tax may work up drastically. As an end result of this, other people who don't earn enough money would find it tough to meet their needs.

5. (shetty, 1971)

This article studies about the existing differential in the tax burdens of farm and non-farm sectors may appear to follow from their inequality patterns. Patterns of income distribution among the sectors, incidence of taxation by grades of income were given as examples by the author. It also brings out the purpose and the difference the actual tax burden and the

potential capacity at the different income levels. This paper measures the inter-class burden of taxation by juxtaposing two sets of data: the data on income distribution and the data on tax burdens at different income levels.

### III. RESEARCH DESIGN

#### STATEMENT OF PROBLEM

India's revenue is now significantly based on indirect taxes, which is regressive in nature. That being said, indirect taxes increase the economic diversity in the country and ultimately leads to much gap between the Rich and the Poor, coupled with other economic adversities like inflation. The exemption for agricultural income is benefitting the medium and large farmers and agricultural companies, which was not the intended outcome. The incomes of the small and marginal farmers are far below the minimum threshold limit of Rs.2.50 lakhs of personal income taxation. By the small farmers are not benefitting out of this. And large amount of black money or illegal money is shown as agricultural income to evade taxes. The current tax system practices in case of agricultural income is in a way helping to provide an extra avenue for people to avoid paying taxes. Basically, it helps the rich becoming richer and poor becoming poor. The most affected sector is the middle-income groups. This law has allowed for a monetary loss to exchequer of the nation, tax evasion on large scale by businessmen and politicians along with extra burden of tax on the middle class of this country.

## SOURCE OF DATA

This study is of Explorative in nature where is data is collected from secondary sources of data. Information are collected from various secondary sources.

1. Government sources such as census 2011 and Ministry of Agriculture and Farmers' welfare.
2. Corporate filings such as annual reports of various agricultural companies from their respective disclosures.
3. Professional associations like National Bank for Agriculture and Rural Development. (NABARD) and Survey of India.
4. RTI information.

## HYPOTHESIS

$H_0$  = There is no impact of implementation of agricultural taxation on Government revenue in India.

$H_1$  = There is an impact of implementation of agricultural taxation on Government revenue in India.

## EXPECTED OUTCOME

1. A pragmatic solution to the increased taxation of middle class
2. Substantial increase in government revenue
3. Facilities equal distribution of income and wealth
4. Controlling evasion of tax under the cloak of the exemption section (**Section 10(1) of the Income Tax Act, 1961**)
5. Lesser burden on the middle-class sector, while still exempting the lower income agriculture sector.

## LIMITATIONS

1. Difficulty in collecting data as the population size is really large.
2. Difficulty in determining an effective rate of tax, in case the taxation is better than the current policy.
3. Doesn't estimate the actual effectiveness of the current policy as it involves various assumptions.

## RESEARCH GAP

The growing taxation on the middle-class people and the increasing scale of exemption by tax MNCs, corporates and other rich individuals gives a broad idea of the “WHY” of the research. The study (Anderson, 2006) done by Andersen, Asheim, Mittenzwei, & Veggeland about the implementation of agricultural taxation in USA, Canada, Switzerland, Norway, France, Ireland and UK provides an insight on the “HOW” of the implementation of Tax on Agriculture in India, considering the diversity in India.

## RESEARCH QUESTIONS

1. Why is agricultural income wholly exempt from taxation in India how has this law come into effect?
2. What are the likely ways in which this affects the revenue of the government of India?
3. Can agricultural income be taxed?
4. If yes, how probable and practical will the implementation of such taxation be?
5. What are the potential benefits and threats of this implementation?

## OBJECTIVES

1. To probe into the causes for tax exemption on agricultural income and to analyze the exemption law
2. To evaluate the possibility of taxation on agricultural income and understanding its practicability and implementation
3. To understand the impact of taxation on agricultural income
4. To measure the additional revenue generated due to such implementation of tax on agricultural income
5. To evaluate the impact, it has on the taxation on other incomes

## IV. DATA ANALYSIS AND INTERPRETATION:

### State-wise break-up of number of agricultural cultivators and percentage of Population below Poverty Line (Table 1) (Source: Census 2011)

State/Union Territory	Number of agricultural cultivators	Percentage of population BPL
Arunachal Pradesh	302723	34.7
Assam	4061627	32
Bihar	7196226	33
Chattishgarh	4004796	39.9
Goa	31354	5.1
Gujrat	5447500	16.6
Haryana	2480801	11.2
Himachal Pradesh	2062062	8
Jammu and Kashmir	1245316	10.4
Jharkhand	3814832	37
Karnataka	6580649	20.9

Kerala	670253	7.1
Madhya Pradesh	9844439	31.7
Maharashtra	12569373	17.4
Manipal	574031	36.9
Megahalaya	494675	11.9
Mizoram	229603	20.4
Nagaland	537702	18.9
Odisha	4103989	32.6
Punjab	1934511	8.3
Rajasthan	13618870	14.7
Sikkim	117401	8.2
Tamil Nadu	4248457	11.3
Tripura	295947	14.1
Telangana	6491522	9.3
Uttar Pradesh	19057888	29.4
Uttarkhand	1580423	11.3
West Bengal	5116688	20
Delhi	33398	9.9
Chandigarh	2578	1.3
Dadra and Nagar Haveli	28164	2.1
Daman and Diu	2316	1.5
Lakshadweep	0	0
Puducherry	12099	9.7
Andaman and Nicobar Islands	16567	13
All India	118808780	16.85142857

Interpretation:

The inference derived from the above table being, out of the total cultivators of 11,88,08,780/-, only an average of 17% are below poverty line.



**Crop-wise Estimated Revenue (Assuming 20% tax rate on agricultural produce)** (Table 2)

Crop Group	Crop	Production (in million Tonnes)	Issue Price (INR. Per tonne)	Estimated Income (in crores of INR) (Production X Issue Price)	Estimated Revenue (Assuming 20% tax rate) (in crores of INR)
Food Grains	Rice	104.32	7950	82934.40	16586.88
	Wheat	93.5	6100	57035.00	11407.00
	Course cereals	76.22	5320	40549.04	8109.81
<b>TOTAL</b>		<b>274.04</b>		<b>180518.44</b>	<b>36103.69</b>
Oil Seeds	Ground Nut	6.77	1100	744.70	148.94
	Mustard	6.82	1231	839.54	167.91
	Soya bean	8.59	930	798.87	159.77
	Sunflower	0.33	813	26.83	5.37
<b>TOTAL</b>		<b>22.51</b>		<b>1665.24</b>	<b>481.99</b>
Cash crops	Sugarcane	352.16	714	25144.22	5028.84
	Cotton	30.15	822	2478.33	495.67
	Jute	10.46	506	529.28	105.86
<b>TOTAL</b>		<b>392.77</b>		<b>28151.83</b>	<b>5630.37</b>
<b>GRAND TOTAL</b>				<b>210335.51</b>	<b>42216.04</b>

**Sources: Production of crops:** (Department of Agriculture, 2016)

**Issue Price:** Central Issue Price as given by the Department of Food and Public Distribution.

**Interpretation:**

- The above table pronounces the fact that, if 20% tax rate is assumed on agricultural produce, the Government of India could get an estimated revenue of 42,216 crores, which is almost **9.56%** of the Revenue from taxes on Income of the government of India, which is **Rs 441255 crores** (Census Survey of India, 2011)
- Also, the estimated revenue of Rs. 42,216 crores (Table 2) is close to **41.91%** of the Goods and Services Tax Collected till date of Rs. 1,00,710 crores.

## V. FINDINGS AND SUGGESTION

It is evident from Table 2 that there is a significant impact on the taxation of agricultural income on the Revenue of the Government of India. By collecting taxes on the income from agricultural produce, the government can substantially and significantly lower its tax on commodities and services, which are regressive in nature. Moreover, exorbitant tax rates such as 28%, which is the highest rate of tax in the world, can be lowered to benefit the tax payers. The agricultural income need not be fully taxed. However, such income can be taxable with slab rates and basic exemption, so as to ensure progressive tax collection.

## VI. CONCLUSION

It's true that agriculture is the main source of income for most of the rural Indian population. It is also equally true that while the small-scale farmers have been barely impacted by the tax exemptions under the Indian Income Tax Act, wealthy farmers have reaped the benefits by abusing them. The prudent path to take would be to amend the definition of 'agricultural income' under the tax laws, and impose an appropriate monetary threshold after careful deliberation and study. Income that is not covered by this revised definition can then be subject to income tax. This would ensure that only the high-income farmers come under the purview of taxation, and the interest of small scale and mid-scale farmers is protected.

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